

ERIC CANTOR *on* **BOWLES-SIMPSON**

Recently, there has been renewed attention on the recommendations of the National Commission on Fiscal Responsibility and Reform, more commonly known as the Bowles-Simpson Commission.

Some have speculated that Bowles-Simpson is an outline that could provide a resolution to both the pending fiscal cliff and our deficit problems.

Others have raised questions about why many Republicans have opposed the Bowles-Simpson recommendations.

While there are many things in the Bowles-Simpson report with which I agree, there are two areas that cause me particular concern and are the basis for why I don't believe Bowles-Simpson is an appropriate solution to our fiscal cliff or the deficit.

Before getting to the particulars of Bowles-Simpson, let me start with two background facts:

[First, health care costs are the primary driver of our deficit.](#)

If we fail to reform our health care programs – Medicare, Medicaid, and the new entitlements created by Obamacare – it doesn't matter what we do with defense spending, Social Security, or other government programs, we will have failed to get the deficit under control.

[Second, economic growth matters– a lot.](#)

Holding everything else constant, more economic growth means more tax revenue, lower social safety net spending and smaller deficits.

Less economic growth means, lower tax revenue, more social safety net spending, and larger deficits.

We must take into consideration what any plan does with respect to economic growth.

So how does Bowles-Simpson handle these two issues?

Let's start with health care.

At the insistence of President Obama, Bowles-Simpson does not address the new entitlements created by Obamacare.

Bowles-Simpson also doesn't propose structural reforms for Medicare or Medicaid. In addition, the President's new health care law created a brand new open-ended health care entitlement and

expanded existing ones that would lead to \$1.7 trillion in expansions in federal health care spending. Bowles-Simpson proposed no changes in these programs.

Why do we need structural reforms?

There are two ways to attempt to control health care costs:

First, government can restrict how much we pay doctors, hospitals, and other health care providers. This is the approach taken in Bowles-Simpson when they propose expanding IPAB – a government panel that has the power to decide how much the government will pay for certain services, and when they propose extending mandatory drug rebates, and cutting hospital reimbursements.

We have tried this before though – ironically as part of the 1997 bipartisan budget deal – where Congress and President Clinton created a formula to restrict how much we pay doctors under Medicare.

[We quickly found out that doctors would not see seniors for what they would be paid under the formula and as a result, for the past decade, Congress has been voiding the cuts.](#)

A second way to control health care costs is to do what so many private employers are doing: empowering and incentivizing individuals to make the decisions that help control costs. Individuals get to control their health care dollars and encourage competition amongst providers.

This is exactly the approach we took when creating the Medicare prescription drug program and as a result, the program is actually costing much less than originally, while at the same time providing better values and better service to seniors.

This is an approach that has been endorsed by other bi-partisan commissions, including the Breaux-Thomas Commission and the Rivlin-Domenici Commission.

There was a bi-partisan plan offered during the Bowles-Simpson Commission's deliberations. Unfortunately, it was not accepted and is absent from the Bowles-Simpson Commission's report.

So what about economic growth?

There is a myth that Bowles-Simpson proposes \$2 trillion in spending cuts for \$1 trillion in tax increases.

But this math assumes that before we agree to the \$1 trillion in new revenue we first agree to President Obama's proposal to raise taxes on those making above \$200,000 and \$250,000 for a couple a year. Combined with other assumptions in the Bowles-Simpson baseline this is a hidden tax increase of \$983 billion.

[A recent study by Ernst and Young indicated that this tax increase alone would lead to a loss of 700,000 jobs and that economic output would fall by 1.3%.](#)

That's something our economy cannot afford.

But Bowles-Simpson makes it even worse by adding another trillion dollars in tax increases on top.

[Once you account for all their baseline changes– as compared to current policy– Bowles-Simpson proposes approximately \\$1.22 in tax increases for every \\$1 in spending reductions.](#)

This is not balanced.

Let's look at the revenue and economic growth issue another way.

[For the past 40 years federal tax revenue has averaged 18 to 19% of GDP. Only three years in the past 70 has revenue exceeded 20% of GDP: 1944, 1945 –during the World War – and 2000.](#)

But Bowles-Simpson proposes to peg revenue at 21% of GDP.

I do not believe you are going to grow the economy and create jobs when you have government taking a bigger chunk of the economy than it ever has historically.

As I said earlier, there are many good ideas in Bowles-Simpson, including, for example proposals for tax reform that lower tax rates and proposals related to federal retirement and compensation programs, and Social Security reform.

We should build on these ideas.

We should incorporate other bipartisan proposals to achieve structural health care reform.

I do believe there is a path forward that deals with the serious challenges we are facing, by incorporating the best aspects of all the various proposals but forward to date.

I hope this helps explain why so many of us have concerns about the Bowles-Simpson plan, and continue to work on a solution worthy of the American people.